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STATE PLEASE PASS TO USTR CAROYL MILLER
COMMERCE FOR ITA/OTEXA MARIA D'ANDREA

E.O. 12958: N/A

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SUBJECT: Jordan's Textiles and Apparel Production: Still Competitive
in High-End Areas Despite Ongoing Challenges

REFS: A) AMMAN 3992
B) AMMAN 3579
C) AMMAN 3472
D) STATE 114799
E) 06 AMMAN 7759

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¶1. (SBU) Summary: In response to Ref D, Post provides below updated statistics and information on the textile and apparel industry in Jordan. Jordan's exports of textile and apparel slightly decreased during the first half of 2007 to USD 568 million, with over 90% going to the U.S. market. The sector continues to be largely dependent on guest workers, who comprise approximately 70 percent of the labor force in the Qualifying Industrial Zones (QIZ), where the majority of Jordan's garment factories are located. Challenges for local manufacturers include labor shortages, rising production costs, and heightened international competition, particularly from Egypt. If Jordan is to remain competitive, manufacturers will need to increase efficiency in production and supply, and develop the capacity to deliver higher value-added products to a broader base of customers. Better training and recruitment of local labor will also be critical to improve workforce skills, employee satisfaction, and retention. End summary.

Competitive Pressures on Jordan's Apparel Exporters

¶2. (U) Jordan has the competitive advantage of offering textile and apparel manufacturers preferential duty access to the United States under the QIZ agreement and the U.S.-Jordan Free Trade Agreement (FTA). Such trade regimes have contributed to overall growth in the sector since 1998. When looking at growth rates for individual companies during recent years, however, some businesses have continued to expand, while others have recorded flat or negative growth since 2005.

¶3. (SBU) Some factory owners who have experienced drops in orders from American buyers blame the May 2006 National Labor Committee (NLC) report on alleged labor violations. Others argue that American buyers have stood by manufacturers in Jordan as labor problems continue to be addressed, and that any decrease in orders is purely a business decision based on heightened international competition and cost of production. In particular, Embassy contacts among the exporter community and in the Government of Jordan (GOJ) cite the main challenges to local manufacturers as the insufficient availability of qualified labor pools locally, tightened GOJ entry restrictions for guest workers, competition from Egypt, rising fuel

and labor costs, and heightened global pressure following the end of the multi-fiber arrangement on January 1, 2005 (Refs A, B, C, and E).

14. (U) These challenges have caused some manufacturers to let production lines sit idle, refuse additional orders, and decrease export levels. In contrast, other factories have determined that they may no longer be as competitive in low-end garments, and thus, have shifted production into higher custom duty items (i.e., less cotton and more polyester/polyester blends), and higher value products yielding better profit margins and more orders from U.S. buyers (Ref C). For example, some factories have begun manufacturing work uniforms, and the Jordan Garment and Textile Exporters' Association (JGATE) reports that one company recently made a deal to produce bullet-proof vests. In examining requests for product approval, Jordan's Ministry of Industry and Trade (MOIT) has noticed an overall increase in FOB (Freight on Board) prices compared to previous years.

15. (U) MOIT knows of at least one case in which an Asia-based direct foreign investor in Jordan, "Golden Wear" denim producers, closed down its factory and relocated to Bangladesh. During a survey of 52 factories by a USAID-funded garment manufacturing consultant, many of the visited factory owners hinted that they are considering expansion or relocation plans away from Jordan into Egypt and Southeast Asia. Additionally, since the May 2006 NLC report, the Ministry of Labor has closed down at least eight small factories, mostly involved in sub-contracting, due to labor violations.

No Safeguards Against China

16. (U) As reported last year, the GOJ has not implemented, nor sees any need to implement safeguards against imports from China (Ref E).

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Labor Challenges

17. (SBU) Post has reported over the course of the year on the GOJ's actions in response to various alleged violations of local labor laws and international labor standards (Refs A, B). Draft amendments to the national labor law will be submitted to the new parliament for approval after the upcoming November parliamentary elections, according to the Minister of Labor. An increased minimum wage from 95 JD (\$134) to JD 110 (\$155) per month went into effect on January 1, 2007. The GOJ has facilitated the repatriation or transfer to other factories of displaced foreign workers from factories that have closed down. Efforts persist to regularize the permit status of foreign workers. Apparel manufacturers continue to lobby the GOJ to ease regulations on hiring foreign laborers and to improve training programs for local labor. USAID plans to contribute over \$2.7 million to the International Labour Organization's Better Work Jordan program to strengthen the inspection regime and enhance public-private dialogue.

Efforts to Increase Competitiveness

18. (U) The private sector continues to request a more comprehensive GOJ strategy for the garment sector that demonstrates continued support for the industry, particularly since some view the restrictions on foreign labor as an "anti-garment" policy that hurts business. As part of a new trade and enterprise development strategy, USAID's \$69 million Sustainable Achievement of Business Expansion and Quality (SABEQ) program is helping the GOJ develop a new strategy to enhance the garment sector. The GOJ has also established programs to provide technical and financial assistance for industries, and established sectoral units to prepare strategies to enhance the competitiveness of industrial sectors in Jordan, specifically export consortia for the textile sector.

19. (U) The GOJ has also signed national and international

agreements to assist local industries in penetrating international markets. Pursuant to an amendment of the QIZ agreement, Jordan and Israel also started allowing in July 2007 quarterly approvals for the Israeli content contribution to products, cutting down on the bureaucracy and time previously needed to gain approval from the Israeli side.

Impact of the U.S.-Jordan Free Trade Agreement

¶10. (U) The U.S.-Jordan FTA has provided more exporting options for manufacturers outside the QIZs. As tariff rates continue to drop according to schedule, Jordan has been seeing a switch from exporting to the U.S. under the QIZ agreement to the FTA agreement, a trend that will likely continue (Ref C).

The Future of Apparel Manufacturing in Jordan

¶11. (SBU) Comment: Jordan's big and established manufacturers are unlikely to leave, particularly those that rely on local labor for production. Despite increased international competition, many factories in Jordan have the advantage of already-established relations with American buyers and a strong track record in providing reliable service and high quality goods. If Jordan is to remain competitive, the sector will need to adjust to changing global and local pressures with increased efficiency in production, transportation, and supply. Manufacturers will need to develop their capacity to deliver higher value-added products and services to a broadened base of retail customers. Better training and recruitment of local labor will also be critical to improving workforce skills, employee satisfaction, and retention. In coordination with the GOJ, USAID-funded SABEQ plans to provide additional technical assistance to address some of these areas and improve competitiveness of the sector. End Comment.

Statistics

¶12. (U) As requested in para 4 of Ref D, provided below are updated statistics that date back to 2005 due to some revisions of earlier numbers provided in last year's report (Ref E).

-- NOTES:

¶A. Source: Jordan's Department of Statistics (DOS), unless otherwise indicated.

¶B. Exchange rate used: 1 USD = .708 Jordanian Dinar

¶C. H1 = First Half of Year (January - June)

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Production

At current (nominal) prices

GDP (USD Billion)

2005	12.63
2006	14.12
H1 2006	6.68
H1 2007	7.42

Industrial Production* (USD Billion)

2005	2.72
2006	3.08
H1 2006	1.42
H1 2007	1.58

*Includes Mining and Quarrying, Manufacturing, and Electricity and Water

Manufacturing (USD Billion)

2005	2.05
2006	2.40
H1 2006	1.08
H1 2007	1.22

Manufacturing of textiles, apparel and leather products*

USD Billion

2005	1.19
2006	1.71
H1 2006	0.65
H1 2007	0.67

*This is the first time that DOS has provided up-to-date statistics that more closely reflect expected production levels in this category.

Jordan's Imports and Domestic Exports

Imports

USD Billion

2005	10.51
2006	11.56
H1 2006	5.70
H1 2007	6.16

Imports of Textile and Apparel

USD Billion Share of Imports

2005	0.867	8.3%
2006	1.01	8.7%
H1 2006	0.484	8.5%
H1 2007	0.481	7.8%

Imports from the U.S.

USD Million Share of imports

2005	588.97	5.6%
2006	555.50	4.8%
H1 2006	260.99	4.6%
H1 2007	282.53	4.6%

Imports of Textile & Apparel from the U.S.

USD Shares of imports from/of

	Million	U.S.A	Text&Apparel	All Imports
2005	9.62	1.6%	1.1%	0.09%
2006	11.16	2.0%	1.1%	0.10%
H1 2006	5.64	2.2%	1.2%	0.10%
H1 2007	5.52	2.0%	1.1%	0.09%

Domestic Exports

USD Billion

2005	3.63
2006	4.14
H1 2006	1.98
H1 2007	2.23

Domestic Exports of Textiles and Apparels

USD Billion Share of Domestic Exports

2005	1.080	29.7%
2006	1.270	30.7%
H1 2006*	0.576	29.1%
H1 2007*	0.568	25.5%

*These DOS figures represent domestic exports of textiles and apparel from all areas of Jordan. MOIT reported USD 520 million in apparel exports from only the QIZs in the first half of 2007, compared to USD 554 million in the first half of 2006.

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Domestic Exports to the U.S.

USD Billion Share of domestic exports

2005	1.12	30.7%
2006	1.28	31.0%
H1 2006	0.57	28.8%
H1 2007	0.57	25.6%

Domestic Exports of Textile & Apparel to the U.S.

USD Shares of exports to/of

	Billion	U.S.A	Text&Apparel	Dom Exports
2005	0.98	87.9%	91.2%	27.0%
2006	1.17	90.9%	91.7%	28.2%
H1 2006*	0.53	93.0%	94.1%	26.8%
H1 2007*	0.52	91.2%	93.5%	23.3%

*These DOS figures represent domestic exports of textiles and apparel to the U.S. from all areas of Jordan. MOIT reported USD 497 million in apparel exports to the U.S. from only the QIZs during the first half of 2007, compared to USD 529 million during the first half of 2006.

Population and Employment Figures

Estimated population, Year End 2006		5,600,000
of which, 15 years old and over	62.7%	3,511,200
of which, economically active	37.7%	1,323,722
of which, employed	86.0%	1,138,401
of which, employed in manufacturing	11.2%	127,500

*Based on DOS's Employment and Unemployment Survey - 2006 Annual Report. The number of employed workers does not include guest workers.

Employment in Qualifying Industrial Zones (as of July 31, 2007,
Source: Ministry of Labor)

Total	51,349
of which, Jordanians	15,183
of which, guest workers	36,166

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